GIFFEN

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GIFFEN INDUSTRIES, INC. • ANNUAL REPORT 1968

GIFFEN

OFFICERS

Eli Timoner
President and Chairman of the Board

Monroe L. Cooperman
Executive Vice President
Chief Operations Officer

Lloyd D. Brinkman
Executive Vice President
National Distribution

Thomas J. Hennesy
Executive Vice President
Acquisitions

Peter J. Franzino
Financial Vice President
and Secretary

Herman R. Applebaum
Vice President
Merchandising

Charles J. Raymond
Vice President
Contracting Services

Eric A. Bardeen
Vice President
Government Sales

R. Walter Bond, Jr.
Vice President
Manufacturing

William E. England
Vice President
Distribution Midwest

Levon Ezell
Vice President
Distribution Southwest

Jerome I. Shishko
Vice President
Distribution Southeast

Richard E. Brown
Treasurer

C. Malcolm Neader
Assistant Secretary
Assistant Treasurer

Frank E. Solomon
Assistant Secretary

Donald D. Shack
Assistant Secretary

EXECUTIVE COMMITTEE

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Monroe L. Cooperman
Thomas J. Hennesy
Lloyd D. Brinkman
Peter J. Franzino

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Thomas J. Hennesy
Lloyd D. Brinkman
Peter J. Franzino
Herman R. Applebaum
Harry Frohman
Robert Pentland, Jr.
Charles J. Raymond
Malcolm B. Wiseheart

GENERAL COUNSEL

Frank E. Solomon

SPECIAL COUNSEL

Golenbock and Barell

TRANSFER AGENT AND REGISTRAR

The Bank of New York
48 Wall Street
New York, New York 10015

AUDITORS

Haskins and Sells

EXECUTIVE OFFICES OF THE COMPANY

3235 N.W. 62nd Street, Miami, Florida 33147

1966	1967	1968
ATLANTIC DIST.	SPACE INDUSTRIES	ALUMINUM BOATS
GIFFEN ROOFING	ATLANTIC DIST.	IND. BOUCHARD
	GIFFEN ROOFING	K. GIMBEL ACCESSORIES
		LIONEL ENTREPRISES
		PREST-WHEEL
		BARDEEN MFG.
		BURGESS TAPES
		ELECTRONIC ENGR.
		L. D. BRINKMAN
		A. L. GREENBAUM
		HILLSMAN
		LAMINATED PLASTICS
		N. Y. METAL MOULDING
		WALTER E. SELCK
		D. A. SMITH
		SPACE INDUSTRIES
		ATLANTIC DIST.
		GIFFEN ROOFING

Subsidiaries of Giffen Industries, Inc.

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SPACE INDUSTRIES
ATLANTIC DIST.
GIFFEN ROOFING

Subsidiaries of Giffen Industries, Inc.

GIFFEN

". . . our efforts are directed toward the formation of a National Distribution Division . . ."

October 23, 1968

TO MY FELLOW STOCKHOLDERS:
It is a pleasure for me to report our activities for the year just ended.

Sales for the year ended June 30, 1968 were $62,335,472 and net earnings were $2,837,828, equal to $1.33 per share reflecting the distribution in July, 1968 of two additional shares for each share then outstanding.

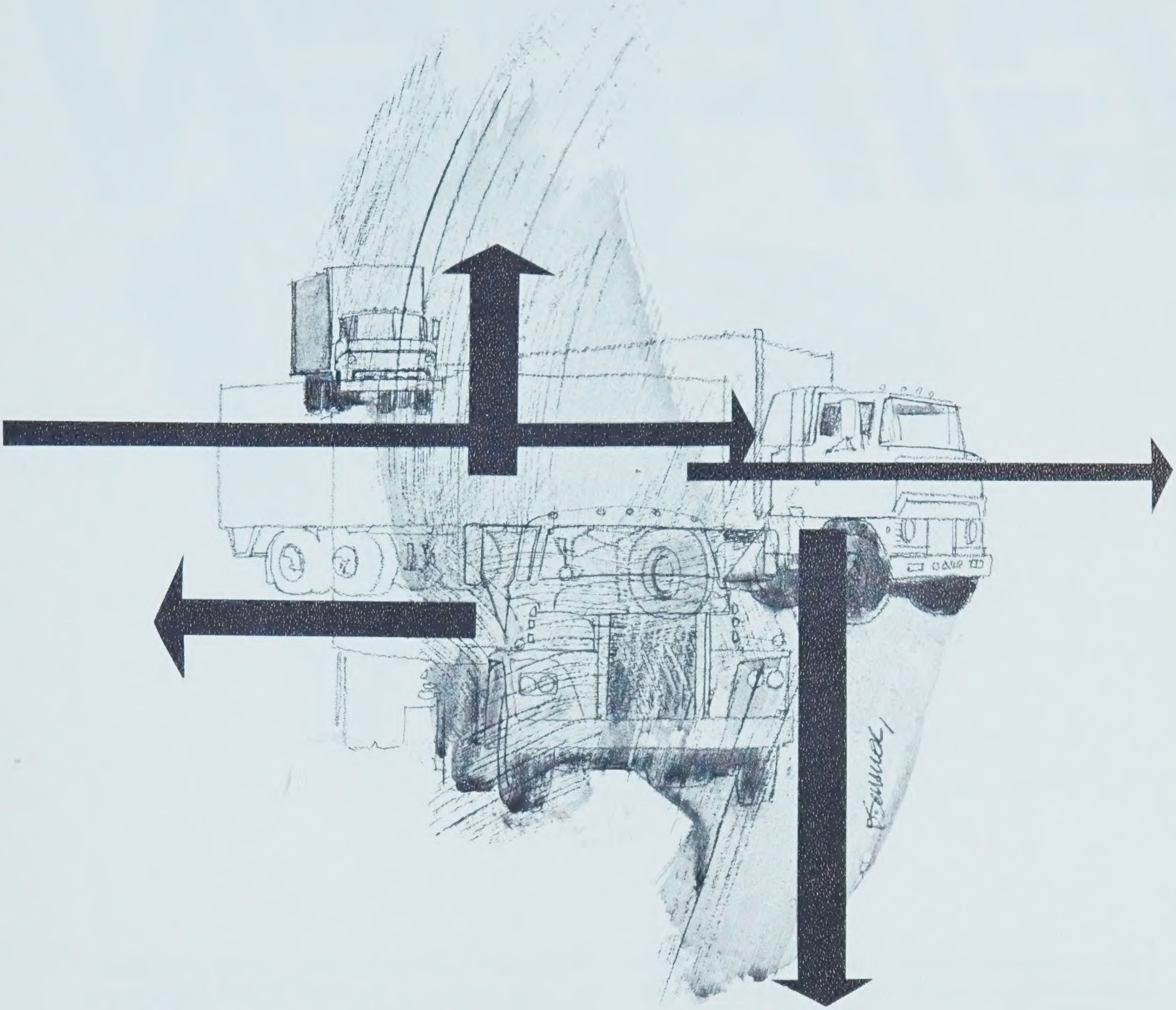
These figures include the results of companies heretofore acquired by Giffen on a 'pooling-of-interests' basis. Per share earnings have been calculated on an average of 2,141,385 shares outstanding for the year.

1967 results, restated to reflect the inclusion of 1968 acquisitions on a 'pooling-of-interests' basis, show sales at $41,521,278 and earnings of $1,891,693, or $.96 per share on an average of 1,967,052 shares outstanding.

I would like to tell you about Giffen Industries as it is today. Giffen is now engaged in a number of businesses which comprise the following four main Divisions:

1. National Distribution
2. Recreation—Leisure Time
3. Specialized Manufacturing
4. Contracting—Service

Through our National Distribution Division, we are attempting to develop a national marketing and merchandising system with particular emphasis on the residential and home furnishings market. The product lines of this Division include carpeting, carpet installation materials and accessories, resilient floorings, plastic laminates (both sheet stock and fabricated goods), metal moldings, extrusions, tubings, sink rims, home and marine hardware, adhesives, finishes and tapes.



At present, these products are usually merchandised by small independent distributors. In contrast, our efforts are directed toward the formation of a National Distribution Division which seeks to achieve a significant penetration of this market by product lines. The management strategy in this Division utilizes a national Buying Power Index or B. P. I., developed by Sales Management Magazine, which considers the market qualitatively as well as quantitatively. Using B. P. I. as a guide, Division management develops sales goals and quotas, estimates inventory requirements and physical needs and plans future expansion areas.

The Giffen National Distribution Division is composed of Atlantic Distributors, Inc., nine branches (Southeast), L. D. Brinkman and Co., seven branches (Southwest), Walter E. Selck and Co., Inc. and D. A. Smith Company, four branches (Middle West), the Hillsman Companies, four branches (Middle Atlantic), New York Metal Moulding and Affiliates (Philadelphia trading area), and A. L. Greenbaum Company (Los Angeles trading area) and A. L. Greenbaum Company and Affiliates (Las Vegas, Nevada). At present, this Division serves areas representing about 30% of the national B. P. I., and we are constantly studying opportunities to expand into other areas.

The management of this Division is headed by Lloyd D. Brinkman, Executive Vice President and three area Vice Presidents. The area Vice President is a 'manager of managers' and is solely responsible for the profit performance and potential in his area. The area Vice President also directs the training program whereby branch managers are expected to develop qualified future managers from within our company to augment our expansion program.

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". . . It is our firm policy . . . that acquisition be the servant of operations . . ."

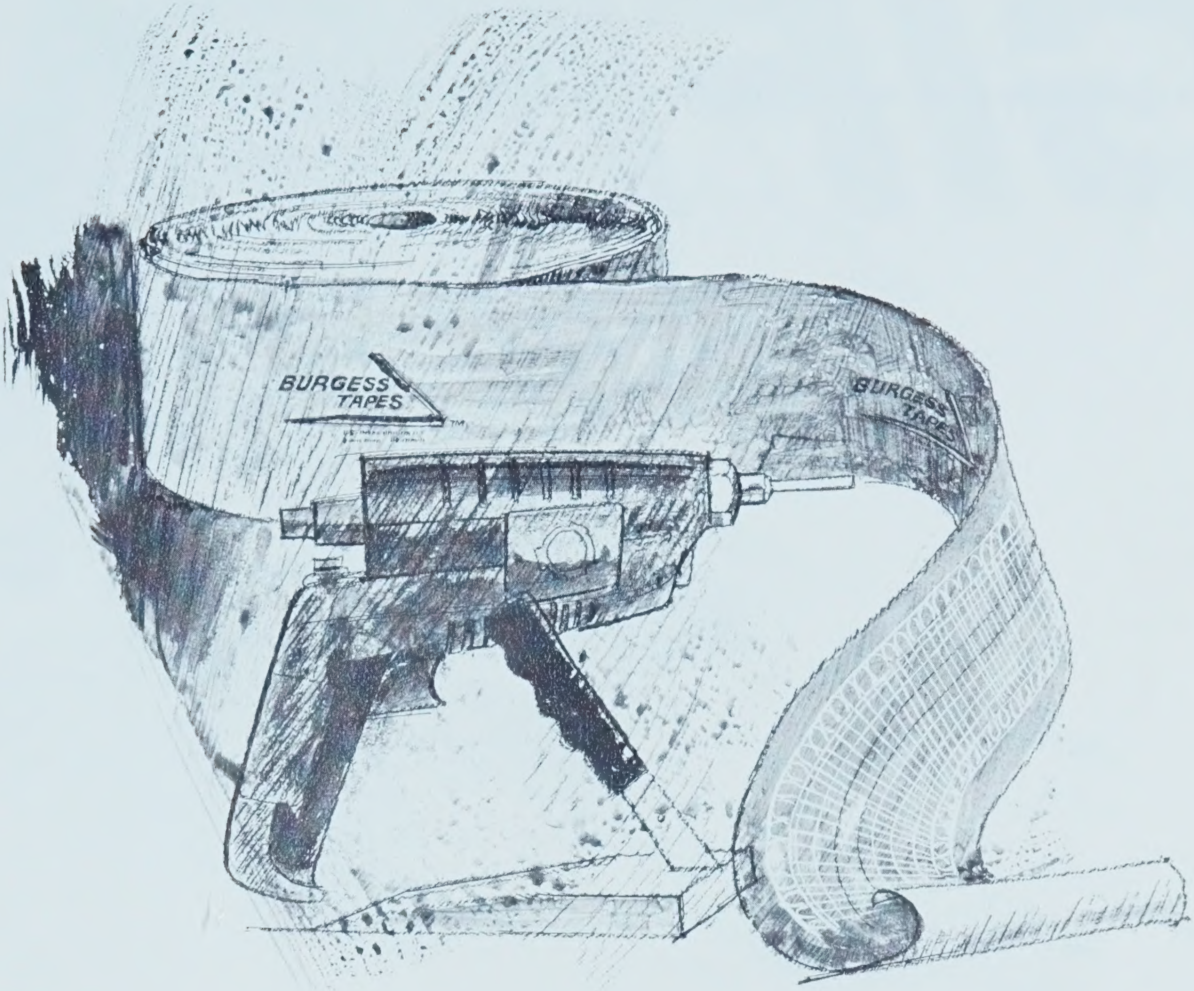
Our Distribution Division sells to retailers, subdistributors and manufacturers. Typical customers include department stores, furniture stores, hardware and building supply outlets, flooring specialties stores and paint stores. Our manufacturing customers include mobile home and travel trailer manufacturers, boat manufacturers, furniture and cabinet makers. We are attempting to build our services and product lines around the needs of these customer groups and to be sensitive to their immediate and future demands. We plan to expand the use of our IBM 360 computer to help us improve control of inventory, purchasing, personnel direction, credit and collections.

Monroe L. Cooperman, Executive Vice President and our Chief Operations Officer, is in charge of other corporate operations, including three manufacturing operations directly related to the Giffen National Distribution Division: Burgess Tapes, Laminated Plastics and Walter E. Selck Manufacturing Division.

Burgess Tapes represents one of the most promising opportunities in the entire Giffen organization. Burgess Tapes manufactures a patented* thermoplastic carpet seaming tape. Giffen-Burgess Corp., a wholly owned subsidiary of Giffen Industries, Inc., is the owner of the patents, the first of which was granted on September 3, 1968. The tape, together with the Burgess iron, which is also covered by a patent**, make up the Burgess carpet seaming system. We believe that it offers the following significant advantages over the previous methods of carpet seaming:

1. Improved ability to match patterns because seaming is done with the carpet face up.
2. Stronger seams.
3. Substantial reduction in the time necessary for seaming, thereby cutting installation costs.

*Patent Number 3,400,038
**Patent Number 3,400,245



4. Carpet can be stretched within five to ten minutes after seaming.

An estimated 25% of the carpet installation industry is already using the type of tape produced by Burgess. In view of the growth of the carpet industry, it is possible that Burgess could become a highly significant part of our business.

An action has been instituted by one of Burgess' competitors concerning the validity of the tape patent. Giffen is defending this action and intends to take appropriate measures to uphold the validity of the patent and enforce its rights thereunder.

Laminated Plastics manufactures high pressure laminated products for kitchen cabinets, counter and vanity components, window sills and also honeycomb plastic ceilings. Laminated's product line will be utilized by our National Distribution Division.

Walter E. Selck Company, in addition to its distribution activities, is a manufacturer of stainless steel and aluminum sink rims and supplies 3,000 independent plumbing distributors throughout the United States.

The Giffen Recreation-Leisure Time Division, also the responsibility of our Chief Operations Officer, consists of the following subsidiaries:

1. Prest-Wheel, Inc., South Grafton and Oxford, Massachusetts, and Parker, Arizona.
2. Aluminum Boats and Canoes, Inc., and Entreprises Lionel, Inc., both of Princeville, Quebec, Canada.
3. Industries Bouchard, Inc., La Pocatiere, Quebec, Canada.
4. K. Gimbel Accessories, Inc., New York City.

Prest-Wheel manufactures aluminum furniture. It is a fully integrated producer, manufacturing its own polypropylene plastic fiber from which it weaves the finished webbing for its chairs and lounges. From

GIFFEN

". . . a Company such as ours is, after all, a 'people business' . . ."

aluminum coil it produces continuous welded tubing. Finally, it manufactures polyurethane foam which is used to make carpet underlay material, chair batting and finished plastic foam products. An expansion of Prest-Wheel's capacity, to enable it to become one of the suppliers to our Distribution Division and to other national accounts, is already under way on the Indian Reservation at Parker, Arizona. This facility will serve the Western United States market area.

Aluminum Boats and Canoes, Inc., is the largest manufacturer of fiberglas and aluminum pleasure craft in Canada. The boats are marketed under the trade names 'Princecraft' and 'Peterborough'. Aluminum Boats also fabricates out of fiberglas, components for snowmobiles, golf carts and camping equipment trade named 'Voyageur.' Its subsidiary, Entreprises Lionel, manufactures 'Sno-Prince' snowmobiles with more than 50% of its sales in the United States.

Industries Bouchard, Inc. manufactures 'Moto-Ski' snowmobiles in a modern facility near Quebec, Canada. Bouchard sells 60% of its output in the United States.

K. Gimbel Accessories, Inc. imports luggage and accessories manufactured primarily in the Far East. The manufacturing and import sources of the Gimbel Company will be utilized by the Giffen National Distribution Division which, in turn, could add significantly to Giffen's marketing potential.

Our third area of operations is in the field of Specialized Manufacture. Our subsidiaries produce precision gears and parts, electronic equipment and electric components for the aerospace and defense industries. The three companies which comprise this Division are Space Industries, Inc., Electronic Engineering Corporation and Bardeen Manufacturing Company.

Our fourth Division, Contracting-Service, is principally composed of Giffen Roofing Company, from which today's Giffen Industries has evolved. Giffen Roofing is one of the largest roofing and deck contractors in the Southeast and continues to be a consistent contributor to corporate profits.

The expansion of Giffen Industries during the past fiscal year is the result of both internal growth and an aggressive acquisition program. The acquisition phase of our business is extremely important. Thomas J. Hennesy, Executive Vice President and Chief Acquisition Officer, carries this corporate responsibility. It is our firm policy, however, that acquisition be the servant of operations. Once an acquisition is completed, we endeavor to quickly and effectively blend it into the Giffen corporate sphere and control and operate the acquired company in harmony with existing management. Therefore, our operations department has veto power on all acquisition activity.

The three Executive Vice Presidents report directly to me and, together with other members of our staff, we form an Executive Committee which constantly reviews the operational phase of our business as well as examines and explores new areas of corporate opportunity.

During the past year, we have been fortunate in attracting a number of talented and resourceful people to the ranks of our management team. They are creative people who accept change readily. They recognize that a company such as ours is, after all, a 'people business' and can adjust quickly to new concepts and new strategies. Our acquisitions have also contributed a group of successful top and middle-management executives who are accustomed to challenge and responsibility.

After all, it is in the attraction and retention of such people, that the future of Giffen Industries rests.

Eli Timoner

Chairman of the Board and President

GIFFEN INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Balance Sheet, June 30, 1968 (Note 1)

ASSETS

CURRENT ASSETS:		
Cash		$ 2,645,917
Trade accounts receivable (less allowance for doubtful accounts of $581,111) (Note 4)		10,450,697
Inventories (Notes 2 and 4):		
Raw materials	$ 2,826,899	
Work-in-progress	1,725,924	
Finished goods	11,768,066	
Total inventories		16,320,889
Stock subscriptions receivable (paid in July and August)		1,315,000
Prepaid expenses		281,267
Other current receivables		307,666
Total current assets		31,321,436
PROPERTY, PLANT AND EQUIPMENT—AT COST (Notes 3 and 4):		
Land and land improvements	246,025	
Buildings	1,855,588	
Machinery and equipment	4,624,385	
Automobiles and trucks	959,449	
Furniture and fixtures	661,429	
Leasehold improvements	625,304	
Total	8,972,180	
Less accumulated depreciation and amortization	3,343,383	
Property, plant and equipment—net		5,628,797
OTHER ASSETS:		
Excess of cost over net assets of purchased subsidiaries—net (Note 1)	66,335	
Patent applications—at cost (patents granted in September 1968)	279,146	
Cash surrender value of insurance on officers' lives	152,104	
Non-current receivables	312,876	
Deposits and other	318,704	
Total other assets		1,129,165
Total		$38,079,398

The accompanying notes are an integral part of this Statement.

GIFFEN INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Balance Sheet, June 30, 1968 (Note 1)

LIABILITIES

■ CURRENT LIABILITIES:		
Notes payable (Note 4):		
Current maturities of long-term debt		$ 1,319,856
Banks		2,100,132
Other		2,188,959
Trade accounts payable		10,706,812
Federal and State income taxes		2,827,402
Accrued liabilities:		
Property and payroll taxes		342,954
Salaries, wages and commissions		428,781
Interest		52,672
Royalties		17,353
Other current liabilities		333,270
Total current liabilities		20,318,191
■ LONG-TERM DEBT (Note 4)		4,667,067
■ DEFERRED INCOME TAXES		38,358
■ MINORITY INTEREST		34,704
■ COMMITMENTS AND CONTINGENCIES (Note 5)		
■ STOCKHOLDERS' EQUITY:		
Preferred stock, authorized 2,500,000 shares, $1.00 par value—issued none.		
Common stock, authorized 5,000,000 shares, $1.00 par value—issued 2,497,788 shares of which 82,896 shares are held in the treasury (Note 6)	$ 2,497,788	
Paid-in capital	4,033,766	
Retained earnings	6,987,618	
Total	13,519,172	
Less 82,896 shares of treasury stock—at cost	498,094	
Total stockholders' equity		13,021,078
Total		$38,079,398

The accompanying notes are an integral part of this Statement.

GIFFEN INDUSTRIES, INC. AND SUBSIDIARIES

Statement of Consolidated Income
For The Two Years Ended June 30, 1968

	Fiscal Year Ended (Note 1) 1968	1967
SALES:		
Construction	$ 4,745,858	$ 4,857,825
Distribution	37,823,075	21,926,091
Manufacturing	19,766,539	14,737,362
TOTAL SALES	62,335,472	41,521,278
COST OF SALES:		
Construction	4,201,747	4,258,380
Distribution	28,812,035	17,078,013
Manufacturing	13,535,210	10,826,409
TOTAL COST OF SALES	46,548,992	32,162,802
GROSS PROFIT	15,786,480	9,358,476
SELLING AND GENERAL AND ADMINISTRATIVE EXPENSES	9,902,232	5,881,370
OPERATING INCOME	5,884,248	3,477,106
OTHER INCOME (EXPENSE):		
Interest income	58,132	37,903
Rentals—net	4,037	48,283
Commissions and settlements with suppliers (Note 7)	182,258	24,782
Miscellaneous	143,745	66,754
Minority interest	(14,334)	—
TOTAL OTHER INCOME (EXPENSE)	373,838	177,722
TOTAL	6,258,086	3,654,828
INTEREST:		
Bonds and mortgages	38,790	28,072
Amortization of debt expense	—	1,551
Other	537,044	316,343
TOTAL INTEREST	575,834	345,966
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	5,682,252	3,308,862
PROVISION FOR INCOME TAXES:		
Current (Note 2)	2,893,322	1,520,138
Deferred	9,474	18,450
TOTAL PROVISION FOR INCOME TAXES	2.902,796	1,538,588
INCOME BEFORE EXTRAORDINARY ITEM	2,779,456	1,770,274
REDUCTION IN FEDERAL INCOME TAXES RESULTING FROM LOSS CARRYFORWARDS	58,372	121,419
NET INCOME	$ 2,837,828	$ 1,891,693
Based on average number of shares of common stock outstanding (adjusted for stock issued for pooling acquisitions and stock distribution (Notes 1 and 6):		
Average number of shares outstanding	2,141,385	1,967,052
Per share:		
Income before extraordinary item	$1.30	$ .90
Extraordinary item	.03	.06
Net income	$1.33	$ .96

The accompanying notes are an integral part of this Statement.

GIFFEN INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements for the Year Ended June 30, 1968

Date Granted	Number of Shares	Option Price (Market Value on Date Granted) Per Share	Aggregate
First Plan:			
May 27, 1966	7,500	$ 1.42	$ 10,625
April 20, 1967	48,000	4.33	208,000
October 25, 1967	1,500	8.33	12,500
February 14, 1968	3,000	10.50	31,500
Second Plan:			
October 25, 1967	12,300	8.33	102,500
February 14, 1968	9,600	10.50	100,800
February 19, 1968	45,000	11.50	517,500
April 16, 1968	10,800	14.67	158,400
May 1, 1968	5,400	20.00	108,000
May 27, 1968	3,000	26.67	80,000
May 30, 1968	16,200	30.00	486,000
Total	162,300		$1,815,825

Options which became exercisable to June 30, 1968:

Year June 30	Number of Shares	Option Price Per Share	Option Price Aggregate	Market Value at Date Exercisable Per Share	Market Value at Date Exercisable Aggregate
1966	3,750	$1.42	$ 5,312	$1.42	$ 5,312
1967	27,750	1.42-4.33	109,312	4.33	120,250
1968	38,550	4.33-8.33	228,500	8.33-23.33	567,400

Options for 3,600 shares were exercised during 1968 at an aggregate option price of $5,100 ($1.42 per share); aggregate market value on the dates exercised was $99,700 ($11 to $43 per share). The excess of the option price over the par value of the common stock has been credited to paid-in capital.

Options outstanding at June 30, 1968:

Date Granted	Number of Shares	Option Price and Market Value at Date Granted Per Share	Aggregate
May 27, 1966	3,900	$ 1.42	$ 5,525
April 20, 1967	48,000	4.33	208,000
October 25, 1967	13,800	8.33	115,000
February 14, 1968	12,600	10.50	132,300
February 19, 1968	45,000	11.50	517,500
April 16, 1968	10,800	14.67	158,400
May 1, 1968	5,400	20.00	108,000
May 27, 1968	3,000	26.67	80,000
May 30, 1968	16,200	30.00	486,000
Total	158,700		$1,810,725

In addition to the above, in May, 1966 options to purchase 60,000 shares at $1.50 per share were granted to officers and directors, in April, 1967 options to purchase 9,000 shares at $4.08 per share were granted to the former owner of an acquired subsidiary and in December 1967 options to purchase 3,000 shares at $7.67 per share were granted to the former owner of another acquired subsidiary. The aforementioned option prices were approximately at the market value at the date of grant. Options at $4.08 per share for 2,850 shares to the former owner of an acquired subsidiary were exercised during the year ended June 30, 1968. Aggregate option price and market value at date exercised were $11,638 and $114,000, respectively.

During the year ended June 30, 1967 warrants for 150,000 shares at $.67 per share and 90,000 shares at prices ranging from $2 to $4 per share were issued in connection with agreements for financial consulting and advisory services and a loan commitment. The warrants for the 90,000 shares were exercised in June, 1967 at $2 per share, 60,000 of the $.67 warrants were exercised in June, 1968 and the remaining 90,000 were exercised subsequent to June 30, 1968.

The aggregate shares reserved for stock options, warrants, conversions and contingent issues are summarized as follows:

Stock option plans for officers and directors	206,400
Stock options—other	69,150
Warrants	90,000
Debenture conversion	56,250
Contingent issuances based on future earnings of acquired subsidiaries	257,289
Total	679,089

If shares for the above were issued at the dates the options, warrants and debentures were issued and if shares were issued under the earnings contingencies, no dilution in net income per share for 1968 would have resulted.

7. SETTLEMENTS WITH SUPPLIERS

During the year ended June 30, 1968, two of the subsidiaries of L. D. Brinkman & Co. terminated their distributor agreements with a supplier; the companies' liability to the supplier was settled through a mutual release of indebtedness aggregating $299,650. A portion of this settlement was applied retroactively to prior years, principally as a reduction to cost of sales ($61,211 in 1965, $43,534 in 1966, and $63,267 in 1967). In 1968 the portion of this settlement ($79,365) representing damages is included in other income.

8. PREST-WHEEL, INC. INVENTORIES

Prest-Wheel, Inc., at dates prior to June 30, 1968, determined its inventories on an estimated basis without physical count of quantities. Inventories used in determining cost of sales are as follows:

	1968	1967
Beginning inventory	$1,463,917	$ 956,998
Cost of materials, labor and overhead	3,853,749	4,501,745
Total	5,317,666	5,458,743
Less ending inventory	1,865,939	1,463,917
Cost of sales	$3,451,727	$3,994,826

Opinion of Independent Public Accountants

Giffen Industries, Inc.:

We have examined the consolidated balance sheet of Giffen Industries, Inc. as of June 30, 1968 and the related statements of consolidated income, paid-in capital and retained earnings for the year then ended which include companies acquired in purchase and pooling of interest transactions as explained in Note 1 to the Consolidated Financial Statements. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except as set forth in the next paragraph. As to certain companies acquired in purchase and pooling of interest transactions and included in the aforementioned financial statements, we were furnished with the reports of other accountants on their examinations; the statements examined by other accountants relate to approximately 17% of the total assets, 34% of sales and 59% of net income.

At dates prior to June 30, 1968, inventories were determined by Prest-Wheel, Inc. on an estimated basis without physical count. We were not engaged as auditors of that subsidiary until June 1968 and are not able to satisfy ourselves concerning such inventories as of June 30, 1967; the amounts thereof are set forth in Note 8 to the Consolidated Financial Statements. Accordingly we do not express an opinion as to such inventories, the amounts of which enter into the determination of results of operations for the year ended June 30, 1968.

In our opinion, based on our examination and the reports of other accountants referred to above, the accompanying financial statements present fairly the financial position of the companies at June 30, 1968 and, except for any adjustment which would be required because of the matter discussed in the preceding paragraph, the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

HASKINS & SELLS

Miami, Florida
September 26, 1968

GIFFEN INDUSTRIES, INC. AND SUBSIDIARIES

Statements of Consolidated Paid-in Capital and Retained Earnings
For The Two Years Ended June 30, 1968

PAID-IN CAPITAL

	Fiscal Year Ended 1968	1967
Balance at beginning of period	$ 900,188	$ 747,331
Excess of proceeds over par value of common stock sold	2,358,088	151,266
Excess of fair value over par value of common stock issued in purchase acquisitions	1,793,365	—
Excess of proceeds over cost of treasury sold	—	1,591
Contribution by stockholders of pooled subsidiary prior to acquisition	647,317	—
Amount transferred to common stock in connection with stock distribution (Note 6)	(1,665,192)	—
Balance at end of period	$4,033,766	$ 900,188

RETAINED EARNINGS

	1968	1967
Balance at beginning of period	$4,460,573	$2,641,275
Net income for the year	2,837,828	1,891,693
Total	7,298,401	4,532,968
Less:		
1968 operations of certain acquired subsidiaries not included in statement of income (Note 1)	(25,509)	—
Dividends of pooled subsidiaries	(19,840)	(11,040)
Distributions by Subchapter S companies prior to pooling less Federal income tax adjustment made in Statement of Consolidated Income (Note 2)	(265,434)	(61,355)
Balance at end of period	$6,987,618	$4,460,573

The accompanying notes are an integral part of these Statements.

GIFFEN INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements for the Year Ended June 30, 1968

1. BASIS OF ACCOUNTING

The consolidated financial statements include all majority-owned subsidiaries of Giffen Industries, Inc., all of which are wholly-owned except Walter E. Selck and Co. and subsidiaries which is 99%-owned. All material inter-company transactions and profits have been eliminated.

The statement of consolidated income includes operations of the following businesses acquired during the period covered by the statement (all are 100%-owned except as indicated):

Business Acquired	**Fiscal Year Basis Included in Statements of Consolidated Income**	**Date of Acquisition**
Purchase accounting basis:		
Atlantic Aluminum and Distributors, Inc. . . .		April 1966
Space Industries, Inc.		April 1967
Fred Warnock Ford, Inc.		July 1967
Burgess Tapes, Inc.		October 1967
Walter E. Selck and Co. and subsidiaries (99%-owned)		April-May 1968
Pooling of interests accounting basis:		
Bardeen Manufacturing Company, Inc. . . .	June 30th	July 1967
Prest-Wheel, Inc.	June 30th (1)	September 1968
L. D. Brinkman & Co. and subsidiaries	June 30th	June 1968
Electronic Engineering Corp.	March 31st (2)	August 1968
Laminated Plastics, Inc.	September 30th (3)	August 1968
Aluminum Boats & Canoes, Inc. and subsidiary, Entreprises Lionel, Inc.	December 31st (4)	August 1968
K. Gimbel Accessories, Inc.	April 30th	July 1968
A. L. Greenbaum Company of Nevada and affiliate	March 31st	September 1968
A. L. Greenbaum Company	October 31st (6)	September 1968
Hillsman Company, Inc. and affiliates	June 30th	September 1968
New York Metal Moulding, Inc.	December 31st (5)	August 1968
Nychrome Corporation	July 31st	August 1968
Allegheny Floor Products Corporation	July 31st	August 1968
Industries Bouchard, Inc.	April 30th	September 1968
D. A. Smith Company	December 31st (5)	September 1968

(1) Company on December 31st fiscal year; operations have been restated to June 30th basis.

(2) 1968 includes fifteen months ended June 30, 1968; additional three months has no material effect.

(3) 1968 includes nine months ended June 30, 1968; omission of the three months has no material effect.

(4) Operations of Aluminum Boats & Canoes, Inc. and subsidiary for the five months ended May 31, 1968 are not included in the statement of consolidated income although the consolidated balance sheet includes such companies as of May 31, 1968; operations for this period show a loss of $25,509.

(5) 1968 includes seven months ended July 31, 1968; omission of the five months has no material effect.

(6) 1968 includes nine months ended July 31, 1968; omission of three months has no material effect.

These companies are included in the accompanying consolidated balance sheet on the basis of June 30, 1968 financial position except as follows:

March 31, 1968	—A. L. Greenbaum Company of Nevada and affiliate
April 30, 1968	—K. Gimbel Accessories, Inc. Industries Bouchard, Inc.
May 31, 1968	—Aluminum Boats & Canoes, Inc. and subsidiary
July 31, 1968	—Nychrome Corporation Allgeheny Floor Products Corporation New York Metal Moulding, Inc. D. A. Smith Company A. L. Greenbaum Company

The excess of cost over net assets of purchased subsidiaries—net is an intangible asset having no determinable limited term of existence and, accordingly, is not being amortized.

Three of the subsidiary companies operate in Canada. As to the accounts of these companies, generally net current assets were translated at the rate of exchange prevailing at the date of the balance sheet; other assets and liabilities at rates as of dates of origin; and net income items (other than depreciation) at the average rate of exchange for the year. Such translation has resulted in no material unrealized exchange gains or losses.

2. TAXES

Certain of the companies acquired on a pooling of interests basis have had tax status as Subchapter S corporations whereby the income or losses of the companies are taxable to the shareholders rather than such taxes being paid by the corporation. Effect has been given in the provision for taxes to the amounts that would have been paid by the companies had such Subchapter S status not existed with the related reduction or increase in taxes resulting from the Subchapter S status applied to Subchapter S distributions charged to retained earnings.

Separate tax returns filed by the various companies produce a tax provision w varies from that obtained by applying normal corporate tax rates to consolidated inc before taxes. Amounts of investment tax credits are not material.

3. PROPERTY, PLANT AND EQUIPMENT

Depreciation of property is provided, on straight-line and declining balance m over the estimated useful life of the assets as follows:

Land improvements	10-25 years
Buildings	5-33 years
Machinery and equipment	2-20 years
Automobiles and trucks	2- 5 years
Furniture and fixtures	3-10 years
Leasehold improvements	Life of lease

Maintenance, repairs and minor renewals are charged to income as incurred. Renew and betterments, which materially increase the value of the property, are capital When equipment is sold, or otherwise disposed of, the cost thereof and related ac lated depreciation are removed from the respective accounts and resulting ga losses are reflected in income.

Depreciation expense is $698,261 and $465,590 for 1968 and 1967, respecti

4. LONG-TERM DEBT

Long-term debt at June 30, 1968 consists of the following:

Convertible debentures 6%, convertible into common stock at $6.67 per share through June, 1972	$ 375,000
Mortgage notes payable 6-7½%	1,103.388
Notes payable—bank 6-10% (see below)	3,413,153
Other—at various interest rates up to 14%	1,095,382
Total	5,986,923
Less current maturities	1,319,856
Total	$4,667,067

Included in notes payable—bank is $2,500,000 for which Gulf Life Insurance Co is committed to purchase such amount from the banks by April 30, 1969 and, upo purchase, to enter into a Loan Agreement with the Company whereby the loan amortized over a fifteen-year period. Based on the aforementioned, no par $2,500,000 is included in current liabilities.

Under various lending arrangements, portions of the trade accounts recei inventories and property, plant and equipment are pledged as collateral.

5. COMMITMENTS AND CONTINGENT LIABILITIES

The Company and its subsidiaries are lessees under various long-term lease a ments on real property expiring at various dates to the year 2050. The minimum a rentals under these leases aggregate approximately $900,000.

The Internal Revenue Service has proposed deficiencies in Federal income tax one of the purchased subsidiaries for the years 1958 through 1965. The amount potential liability (exclusive of interest) in excess of the amount reserved for such is approximately $570,000. This proposed deficiency is being contested in the tax of the United States and counsel is of the opinion that the chance of eliminating a substantial part of the deficiency is favorable. Since such deficiency relates to pe prior to purchase of this subsidiary, any assessments which might be sustained adjust the purchase price and would not affect operations.

An action has been instituted in the United States District Court for the Distr Delaware by one of Burgess' competitors against Giffen-Burgess Corp. seeking, other relief, a declaratory judgment that the patent issued in respect of Burgess ta invalid. Giffen intends to defend such action and take all other appropriate a order to uphold the validity of the patent and enforce its rights thereunder. There assurance that Giffen will be successful in any such actions.

Under existing employment agreements and other arrangements, the Compa obligated to pay compensation at an annual rate in the aggregate amount of $450, plus additional amounts based upon earnings.

6. CAPITAL SHARES

Subsequent to June 30, 1968 a distribution to stockholders was made of two add tional shares for each one share of common stock of the Company owned. This cha is reflected retroactively in the financial statements and in the information contained in this Note.

At June 30, 1968 206,400 shares of the common stock of the Company are reserved for two stock option plans for officers and employees.

Under the stock option plans, options may be granted at not less than 100% of the fair market value of the stock on the grant date. Under the first plan options are exercisable determined by the stock option committee at the grant date but not less than after least one year of continued employment prior to the exercise of such option. Optio under the first plan for all shares (60,000) had been granted by February 14, 1968. Under the second plan options are exercisable as determined by the stock option committee at the grant date but not less than after six months continued employment and not less than six months from the date of grant. All options expire five years from the date of grant unless the committee fixes a shorter period and no option may be exercised until all options of an earlier date granted at a higher option price shall have been exercised in full or expired. Information with respect to stock options is summarized as follows

Options granted to June 30, 1968:

GIFFEN

I. NATIONAL DISTRIBUTION DIVISION

A. Warehousing and Distributing Companies

ATLANTIC DISTRIBUTORS, INC.
FLORIDA—Miami, Orlando, Tampa, Jacksonville, Fort Lauderdale
GEORGIA—Atlanta (2)
LOUISIANA—New Orleans, Lafayette

L. D. BRINKMAN AND CO.
TEXAS—Dallas, Houston, San Antonio, Lubbock, Arlington
LOUISIANA—Shreveport
OKLAHOMA—Oklahoma City

WALTER E. SELCK AND COMPANY, INC.
ILLINOIS—Chicago
MINNESOTA—Minneapolis
MISSOURI—St. Louis

D. A. SMITH COMPANY
MISSOURI—Kansas City

HILLSMAN COMPANIES
VIRGINIA—Norfolk, Richmond
GEORGIA—Atlanta
NORTH CAROLINA—Charlotte

NEW YORK METAL MOULDING AND AFFILIATES
PENNSYLVANIA—Philadelphia

A. L. GREENBAUM COMPANY
CALIFORNIA—Los Angeles

A. L. GREENBAUM COMPANY AND AFFILIATES
NEVADA—Las Vegas

B. Manufacturing Companies

BURGESS TAPES
GEORGIA—Macon

LAMINATED PLASTICS, INC.
MISSOURI—St. Louis

WALTER E. SELCK, MANUFACTURING DIVISION
ILLINOIS—Chicago

II. RECREATION-LEISURE TIME DIVISION

PREST-WHEEL, INC.
MASSACHUSETTS—South Grafton, Oxford
ARIZONA—Parker

ALUMINUM BOATS AND CANOES, INC. AND ENTREPRISES LIONEL, INC.
QUEBEC PROV., CANADA—Princeville

INDUSTRIES BOUCHARD, INC.
QUEBEC PROV., CANADA—La Pocatiere

K. GIMBEL ACCESSORIES, INC.
NEW YORK—New York City

III. SPECIALIZED MANUFACTURING DIVISION

SPACE INDUSTRIES, INC.
FLORIDA—Miami

ELECTRONIC ENGINEERING CORPORATION
FLORIDA—Opa-locka

BARDEEN MANUFACTURING COMPANY
GEORGIA—Warner-Robins

IV. CONTRACTING—SERVICE DIVISION

GIFFEN ROOFING COMPANY
FLORIDA—Miami, Cocoa, Jacksonville, Tampa

WKA
PRODUCED BY WOODY KEPNER ASSOCIATES, MIAMI

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